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RUEHKO/AMEMBASSY TOKYO PRIORITY 1187
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C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 000338

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STATE FOR SCA/CEN, EEB
PLEASE PASS TO USTDA DAN STEIN
ENERGY FOR EKIMOFF/THOMPSON
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E.O. 12958: DECL: 03/12/2018
TAGS: [PGOV](#) [EPET](#) [EINV](#) [TX](#)
SUBJECT: TURKMENISTAN: CHEVRON SUBMITS DETAILED
"INDICATIVE OFFER"

REF: A. ASHGABAT 0307

[1](#)B. ASHGABAT 0327

Classified By: CDA Richard E. Qoagland: 1.4(B), (D).

[1](#)1. (C) SUMMARY: Chevron Country Manager Doug Uchikura told the Charge during a March 11 meeting that he had delivered a 200-plus page detailed "indicative offer" earlier that morning to the office of the Executive Director of the State Agency for Management and Use of Hydrocarbon Resources. The proposal is to work only subsalt hydrocarbons on-shore in the Amu Darya basin, excluding the Dovletabad Field and the Right Bank. There is no offshore element. In presenting its offer, Chevron focused on what it can bring to the table that others cannot -- primarily its proven experience in working subsalt, high-pressure, high-temperature, high-sulphur fields, and its proprietary technology. The goal is to get into serious negotiations quickly. Unfortunately, the State Agency's head was out of town March 11 -- likely in Tashkent -- but Uchikura hopes to hold a thorough walk-through of the offer with relevant Turkmen agencies in the first week of April. END SUMMARY.

[1](#)2. (C) Uchikura told the Charge during a March 11 meeting that personnel in Chevron's London office worked hard for several weeks to meet Chevron's self-imposed commitment to deliver a concrete, detailed proposal o/a March 10. They had sought to complete a detailed "indicative offer," which they want to lead to serious negotiations with Turkmenistan soon. With an "indicative offer," Uchikura said, Chevron could withdraw from the deal if the government decides not to play ball.

THE DEAL ELEMENTS: ON-SHORE, SUBSALT, AMU DARYA BASIN

[1](#)3. (C) Chevron's proposal is to work on-shore only in the

Amu Darya basin (with the exceptions of the right bank of the Amu Darya River, where the China National Petroleum Corporation -- CNPC -- already is active, and the already-existing, huge Dovletabad field). Chevron is also proposing to work only subsalt hydrocarbons. The company is pitching this as a comprehensive proposal that would include everything it would normally do anywhere in the world with an upstream offer, including programs for training, health, environment and safety, community engagement, and development of local small and medium enterprises, and has proposed to work on a 100% equity basis. (Note: Uchikura said that Chevron wants to keep open the possibility that the government might choose to become a partner, but noted that in past discussions, the government has made clear that it is not ready to share costs, as it would have to do if it designates a partner entity, like Turkmengaz. END NOTE.) Chevron is also offering a \$100 million signature bonus that can be paid into a government account after an agreement has been signed, as well as other, non-explicit, bonuses once subsequent milestones are reached.

CHEVRON SEEKING NICHE ROLE

14. (C) In response to a suggestion by the the State Agency's Executive Director, Byrammurat Muradov, to Ambassador Mann (reftel), Chevron sought in its proposal to focus on what it can bring to the table that others cannot. Uchikura said that he had also heard from an upper-level Turkmengaz official that there are two different camps within Turkmenistan's bureaucracy on the desirability of allowing foreigners to work on-shore. This means the question is still open, but Muradov needs "something serious enough to trot around."

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15. (C) As a result, Chevron deliberately structured its proposal to avoid doing what Turkmenistan has proven it can do itself -- i.e., above-the-salt drilling -- and instead is seeking to carve out a special niche for itself with its proposal to drill only subsalt layers, where most of Turkmenistan's remaining gas is believed to be located. (COMMENT: Although Uchikura noted a recent media article claiming that Turkmenistan had drilled subsalt to 4500 meters (ref B), he suggested if Turkmenistan had, in fact, succeeded in accomplishing this, it could not yet do so on a large scale. END COMMENT.) Chevron's proposal focuses heavily on its proven experience in working subsalt, high-pressure, high-temperature and high-sulphur fields. In its proposal, Chevron mentions the fact that CNPC called Chevron in to work a similar field in western China after CNPC operations had resulted in an accident that killed more than 200 people, as well as its role in developing Kazakhstan's Tengiz field. The company also stresses its proprietary technology related to subsalt seismic imaging and subsalt drilling.

AREAS FOR NEGOTIATION: RELINQUISHMENT OBLIGATION AND TERM

6, (C) Uchikura acknowledged that the area that Chevron is proposing to work, which is about a third of the size of the Gulf of Mexico, is huge. However, he said, his company is proposing a large area both because it is underexplored and because there is a chance that some of the areas will not have "home-run" fields, and Chevron will subsequently need to hone down. Although there is always a relinquishment obligation, Chevron wants to leave this issue open for negotiation. The Charge agreed that the large area covered by Chevron's proposal could scare some people, but suggested that it also implies a serious, long-term commitment. Uchikura agreed, stating that Chevron is hoping for a more than 35-year agreement, even though Turkmenistan's current policy allows a maximum term of 20 years, with one automatic 5-year extension -- and a second 5-year extension for a price.

CHEVRON PLANNING FORMAL WALK-THROUGH IN FIRST WEEK OF APRIL

¶7. (C) Uchikura said that Muradov was out of the country when he delivered his proposal to the State Agency. Noting that Muradov, Deputy Chairman of the Cabinet of Ministers for Oil and Gas Tachberdi Tagiyev, and Minister of Oil and Gas Baymurat Hojamammedov are all planning to attend the London-based Oil and Gas in Turkmenistan conference April 17-18, Uchikura hopes to have a Chevron team come to Ashgabat the first week of April to walk Turkmenistan's hydrocarbon officials through the proposal.

¶8. (C) COMMENT: This is a big step for Chevron and for Turkmenistan, which has demonstrated an unwillingness up to now to leave its safety zone of dealing with only third-tier companies, primarily offshore. While nobody knows the volume of Turkmenistan's proven reserves for sure, most believe that the vast majority of those reserves are contained in the still relatively untouched subsalt layers. If Turkmenistan wants to be able to meet the supply obligations that it has made to Russia, China, Iran and -- possibly could make in the future -- Europe, it will soon need to begin to tap its subsalt reserves. Chevron has a lot to bring to the table, and its proposal seems to have support among at least the more pragmatic of Turkmenistan's hydrocarbon establishment. However, it still faces an uphill battle if it is to overcome the we-can-go-it-alone thinking that informs so much of Turkmenistan's bureaucratic decision-making. END COMMENT.
HOAGLAND